

Making the Right Fit: Supporting NGOs in Africa Using Direct and Indirect Funding



Africa Grantmakers' Affinity Group

The Africa Grantmakers' Affinity Group (AGAG) prepared this summary report as part of its program activities to promote sharing and learning among grantmakers interested in Africa. AGAG wishes to acknowledge the Rockefeller Foundation and the W. K. Kellogg Foundation who contributed to the support of this project. A special thank you to all of those who participated in this study.

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The Africa Grantmakers' Affinity Group (AGAG) is a project of the Tides Center
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AGAG was founded in 2000 by a group of foundations seeking to elevate Africa's profile within the philanthropy community. AGAG has grown over the past ten years into a vibrant and diverse network of grantmakers funding in Africa. AGAG supports the learning agenda of its members and seeks to make a contribution to the field of philanthropy and African development through its activities.

More information on AGAG activities can be found on the website at
www.africagrantomakers.org

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Report Summary
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Africa Grantmakers' Affinity Group

Members of the Africa Grantmakers' Affinity Group (AGAG) have come together over the last decade to share with and learn from each other about their experiences in making grants to Africa. As a learning community they represent a great diversity of interests and approaches, but share a common goal to promote increased and more effective funding in Africa. As part of this learning agenda AGAG conducts research to capture and disseminate information about funding practices and strategies.

About this Report

The report, *Making the Right Fit: Supporting NGOs in Africa Using Direct and Indirect Funding*, presents findings and recommendations from the study AGAG conducted to explore attitudes and opinions about funding national non-governmental organizations (NGOs) in Africa directly or indirectly through intermediary organizations. The findings are based on interviews with staff members of grantmaking, intermediary and non-governmental organizations. Our goals were to explore how NGOs in Africa experience receiving support directly or indirectly through intermediary organizations and to identify some of the reasons foundations use one method or the other.

This report summary includes key findings to the study questions and the benefits of direct and indirect funding. It concludes with recommendations that are targeted to grantmakers. We hope the report encourages candid discussion about not only what to support but how to support NGOs in Africa. The findings clearly indicated how funding is received makes a difference in ways well worth more discussion and consideration.

We welcome your comments and encourage you to share your experiences in supporting NGOs in Africa using direct and indirect funding. Please send them via email to info@africagrantmakers.org

Niamani Mutima
Executive Director

Introduction

Does **how** funders provide money to the organization they support matter as much as **what** is funded?

Foundations that provide funding in Africa typically share a common vision: they hope to catalyze work that solves some of the most pressing challenges on the continent. Many grantmakers invest tremendous resources to learn about the needs of the countries and people whose work they support before making funding decisions.

But a critical question is often left unexamined: does *how* funders provide money to the organization they support matter as much as *what* is funded? For example, does it make a difference to an organization's ability to carry out and sustain their work if they receive funds *directly* from foundations or *indirectly* through intermediaries?

A study by the Africa Grantmakers' Affinity Group (AGAG) found that *how* organizations receive funding *does* bring different benefits. The study provides insights into foundation practices in funding NGOs in Africa. It provides feedback from NGOs about the advantages and disadvantages when they receive funds directly or indirectly through intermediary organizations.

Background of the Study

AGAG is a membership network of grantmakers that are currently funding in Africa or are interested in funding in Africa. As part of its activities, AGAG conducts research on topics relevant to the work of Africa grantmakers, such as funding trends in specific areas or countries and grantmaking practices. Findings from the 2007 study commissioned by AGAG sparked an interest in learning more about why foundations chose to fund directly or through intermediary organizations and the benefits of both methods to NGOs in Africa.

The study, *Funding for Health and Basic Education Programs in Southern Africa*, showed that while the majority of grants went to organizations with headquarters in Africa, the majority of the money went to intermediary organizations that are headquartered outside of Africa.

Specifically, the finding showed that while 88% of the grantees were based in one of the ten countries in the study, they received only 43% of the money. On average, funding to international organizations was 900% larger than that received by their national counterparts.

Individual national NGOs received the smallest contribution. On average, national academic, research and medical institutions received support that was 1,000% larger than that received by national NGOs. International NGOs received grants that were 700% larger than those received by their national counterparts.

These findings led AGAG to ask if *how* funding is received makes a difference in helping NGOs to build the capacity of their organizations to implement programs, attract additional funding and to be perceived as strong organizations. Additionally, AGAG wanted to know some of the reasons foundations chose to use one method over the other in supporting organizations in Africa.

To answer this question, in 2009-2010 AGAG conducted a qualitative study through a series of 30 confidential interviews with staff members of 14 foundations, 11 NGOs (national organizations with headquarters in an African country) and 5 intermediary organizations. The study included only national NGOs and did not include academic, medical or research institutions headquartered in Africa.

The foundations represented a range of types, budgets and thematic focus and included several with offices in Africa. Most foundations (12 of 14) used one approach (either direct or indirect funding) for 90% of their grants. Six of the 14 foundations made part or all of their funding indirectly through intermediaries and eight of the 14 foundations made part or all of their funding directly to organizations with headquarters in Africa. Only two used a mix of direct and indirect funding.

The intermediaries included international nongovernmental organizations and public charities. The national NGOs represented eight countries with budgets ranging from under \$500,000 to more than \$2 million.

Africa grantmakers typically fund organizations in Africa either indirectly or directly (or use a combination of modes). Indirect funding describes funding through an international or local intermediary organization. In turn, these organizations subcontract work or re-grant funding to local NGOs to carry out specific projects. Direct funding means organizations receive funding directly from foundations rather than through an intermediary organization.

Since the term organizational capacity can have different meanings to different people when conducting the study AGAG put forth a definition to clarify the term “capacity.”

The purpose of the study was to answer the following questions:

- How do definitions and perceptions of organizational capacity among national NGOs, intermediaries and foundations agree or differ?
- What are the reasons foundations choose to fund directly or indirectly through intermediary organizations?
- How do NGOs view the advantages and disadvantages of receiving funding directly and indirectly through intermediary organizations?
- What are the strategies of using direct and indirect funding in strengthening the capacity of organizations?

Findings

How do definitions and perceptions of organizational capacity among NGOs, intermediaries and foundations agree or differ?

Foundations, NGOs and intermediaries agreed with the key attributes of the definition of organizational capacity proposed. All three groups also said that the definition focused too narrowly on project implementation. Each group expanded the definition to include more organizational characteristics. Each added elements to the definition of capacity that reflected their perspectives and revealed different views over how they prioritized these elements. For example:

The study defined organizational capacity as “the ability of an organization to implement a project, achieve hoped for results, attract and retain qualified staff, accurately track and report results for program improvement and establish sound fiscal operations.”

- Foundations most often added the ability to connect local issues to the policy environment;
- Intermediaries most often added the ability to create relationships and influence others;
- NGOs most often added the ability to engage local communities in an authentic way.

The differences in priority among the three types of organizations regarding organizational capacity are important to note. These different perspectives may also reflect differences in approaches that influence ways of operating. If foundations have one vision of the most important indicators of organizational capacity and NGOs have another one, then these groups might be inadvertently working toward different goals.

What are the reasons that foundations choose to fund directly or indirectly through intermediary organizations?

Foundations stated that funding philosophy, legal requirements and budget constraints are some of the main reasons for choosing one approach over another.

Foundations said they fund indirectly through intermediary organizations for two main reasons:

- 1) they were making large grants that required a high degree of financial and management capacity;
- 2) they had to adhere to legal requirements of operating as a corporation or private foundation that require funding groups that have a U. S. 501(c) 3 tax status or the equivalent.

Foundations said they provide direct funding to NGOs in Africa for three reasons:

- 1) address issues from a local perspective;
- 2) support building the capacity of national organizations; and
- 3) provide dollars directly to local groups.

In addition, for some foundations, national organizations provide a level of capacity and engagement that they could not find in intermediaries.

How do NGOs view the advantages and disadvantages of receiving funding directly and indirectly through intermediary organizations?

Findings

NGOs in the study said that funding through intermediaries was more likely to provide relevant issue-area technical assistance and information, and created effective peer networking and learning opportunities than direct funding. But indirect funding also resulted in lower and less negotiable percentages for overhead costs and was most often for project costs only.

Direct funding was more likely to provide support for general operations and indirect cost reimbursement than indirect funding and the direct relationship with foundations opened up the possibility of negotiating the terms of their grant. But direct funding lacked, at times, an integrated, hands-on approach more often used by intermediary organizations.

What are the strategies of using direct and indirect funding in strengthening the capacity of organizations?

Direct Funding Strategies

Foundation strategies can be categorized in three approaches:

1. An individual add-on approach, which is characterized by supplemental grants for technical assistance, organizational capacity building or conference attendance.
2. A general support approach in which NGOs can use funds to pay administrative and salary costs as well as to implement projects.
3. An integrated approach in which foundations incorporated organizational capacity building support into all grants.

Most foundations in the study employed an individual add-on approach.

Indirect Funding Strategies

Intermediary organizations often used an integrated approach that included peer networks to help organizations to strengthen their connection to the field, often expanding their exposure to regional and international networks. They also provided technical assistance on financial management, strategic planning and organizational development.

Foundations funding through intermediaries can offer technical assistance in a range of topics and across geographic areas to their grantees that the foundations could not provide. Indirect funding enabled foundations that cannot fund directly to support the work of local NGOs in Africa.

Conclusion

According to interviews conducted, how funding is received does make a difference for national NGOs in Africa. Both direct and indirect funds can have a positive impact. Both have benefits in helping NGOs build strong organizations to carry out the important role they play in addressing a range of development challenges facing the continent.

While foundations, intermediary organizations and national NGOs all play a part in the funding partnership, the interviews also revealed they each have their own perspective on the key elements of a strong organization. For the national NGOs there are trade-offs in receiving funding directly and having a relationship with a foundation or receiving funding indirectly and having a relationship with an intermediary organization.

As with most relationships, communication emerged as a key factor. Working at a distance means that often foundations, intermediary organizations and NGOs have limited opportunity for in depth discussion. Additionally, each works within a local context that might not be familiar to the other. For example, NGOs might not be aware of the legal restrictions foundations face in funding organizations not based in the United States. Foundations might make assumptions about local costs and not see how funding through intermediary organizations might limit the availability of necessary indirect costs for national NGOs.

Recommendations

Despite the diversity of issues and geographic interests of the study sample and different context in which each of them operates, some important issues and insights emerged from the interviews that warrant foundation consideration and discussion.

- Foundations funding directly or indirectly through an intermediary organization should discuss how and if the method of funding will help to strengthen the organizations involved. Be aware of the mix of direct and indirect support involved and the strengths and weaknesses of each.
- Foundations should consider what they hope to leave behind when their funding ends. In asking NGOs about the benefits of how funding is received, concerns were raised about considering the organizational health of national NGOs, not just the specific project they are being funded to implement.
- Foundations should consider how they could balance project outcomes with the need to strengthen the organizations doing the work. Comparing views on organizational capacity can help all stakeholders – foundations, intermediary organizations and NGOs – to have a meaningful dialogue to develop a shared understanding of priorities in building strong organizations.

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- Foundations supporting organizational capacity whether directly or through intermediary organizations should pay attention to appropriate measurements and assessment to learn what works and what does not work. Lessons learned that are documented and shared would make a valuable contribution to the field.
 - Foundations should not underestimate the importance of the learning that happens and goes both ways. As the study reveals, NGOs see the value in their relationship with foundations beyond the financial support; it is an opportunity to engage with and learn from foundations.
 - For funders, direct engagement presents an opportunity to learn not only about the specifics of the grantee's organization but also about the overall context in which they are operating. This brings value to and enriches the work of both partners and the partnership.
 - Even if a funder is restricted to using one method or another, the knowledge and understanding of how both direct and indirect funding contributes to strengthening the grantee can help inform their grantmaking practices.
 - Finally, the important consideration is to create an atmosphere for frank discussion where all stakeholders can discuss the impact of not only what is funded but also how funding is received. Making the right fit means having a better understanding of the benefits of both direct and indirect funding and choosing what works for all the stakeholders involved.

Africa Grantmakers' Affinity Group

Mission

To encourage increased and more effective foundation funding in Africa through sharing and learning.

Vision

To be a trusted resource on foundation funding in Africa.

AGAG seeks to fulfill its mission through a range of networking and learning activities including conducting and disseminating research relevant to our members and the field of grantmaking in Africa.



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